

# Municipal Fiscal Distress:

## *RI Fiscal Stability Act*

Senator Daniel Da Ponte  
Chair, Senate Committee on Finance  
March 10, 2017

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# Overview

In 2010 the RI General Assembly passed the “Fiscal Stability Act”

- Act was in response to the City of Central Falls filing a receivership petition in Superior Court

Goals:

- Provide a mechanism for the State to work with municipalities undergoing financial distress that threatens the fiscal well-being, public safety, and welfare of these communities, others, or the State
- Provide stability to the municipal credit markets for Rhode Island and its cities and towns through a predictable, stable mechanism for addressing cities and towns in financial distress

# Authority

The Act creates three levels of State oversight and gives the State, acting primarily through the Department of Revenue, the power to exercise varying levels of support and control, depending on the circumstances.

Least  
Intervention

Degree of State Intervention

Most  
Intervention

## Fiscal Overseer

Compel operational performance or forensic audits or any other similar assessments.  
Employ and retain staff as necessary to carry out the responsibility of the fiscal overseer.

## Budget Review Commission

All powers of the fiscal overseer.  
Amend, formulate, and execute the annual municipal budgets, borrowing authorizations, or financing or refinancing of any debt in accordance with the law.  
Amortize operational deficits for a term not longer than five years.  
Develop and maintain a uniform system for all financial planning and operations in all departments, offices, boards, commissions, committees, agencies or other units of the city's or town's government.  
Review and approve or disapprove all proposed contracts for goods or services.  
Establish or amend any fee, rate or charge, for any service, license, permit or other municipal activity, otherwise within the authority of the city or town.  
Appoint, remove, supervise, and control all city and town employees, including the filling of vacancies on any authority, board, committee, department, or office.  
Purchase, sell, lease, or otherwise transfer or acquire real property and other assets of the city or town.  
Issue debt including, not not limited to, bonds and notes.

## Receivership

All powers of a fiscal overseer and budget commission.  
All powers granted any municipal official, employee, authority, or commission relating to financial issues under the law, including education.  
The power to declare bankruptcy.

# Authority

- Allows the Director of Revenue, in consultation with the Auditor General, to appoint a receiver in the event of a fiscal emergency, in circumstances that do not allow for appointment of a fiscal overseer or a Budget Review Commission.
- Prohibits municipalities from filing for judicial receivership and clarifies that the Superior Court has no jurisdiction to hear such matters.

# Authority

- A fiscal overseer, Budget Review Commission or receiver is not allowed to reject or alter any existing bargaining agreement, unless through collective bargaining, during the term of such collective bargaining agreement.
- Provides a mechanism for the Director of Revenue to pay interest or principal on bonds, notes or certificates of indebtedness when it is unlikely that a city, town or regional school district will be able to pay this debt. Allows the State to charge these costs against state aid (excluding school operational aid) due to the city, town or regional school district.




# Triggers

## Any two can warrant State intervention:

- A municipality projects a deficit in the municipal budget in the current fiscal year and again in the upcoming fiscal year.
- A municipality has not filed its audits with the Auditor General by the deadlines required by law for two (2) successive fiscal years (not including extensions authorized by the Auditor General).
- A municipality has been downgraded by one of the national statistical rating organizations.
- A municipality is otherwise unable to obtain access to credit markets on reasonable terms.
- A municipality that does not promptly respond to requests made by the Director of Revenue or the Auditor General, or the chairpersons of the House or Senate Finance Committees for financial information.

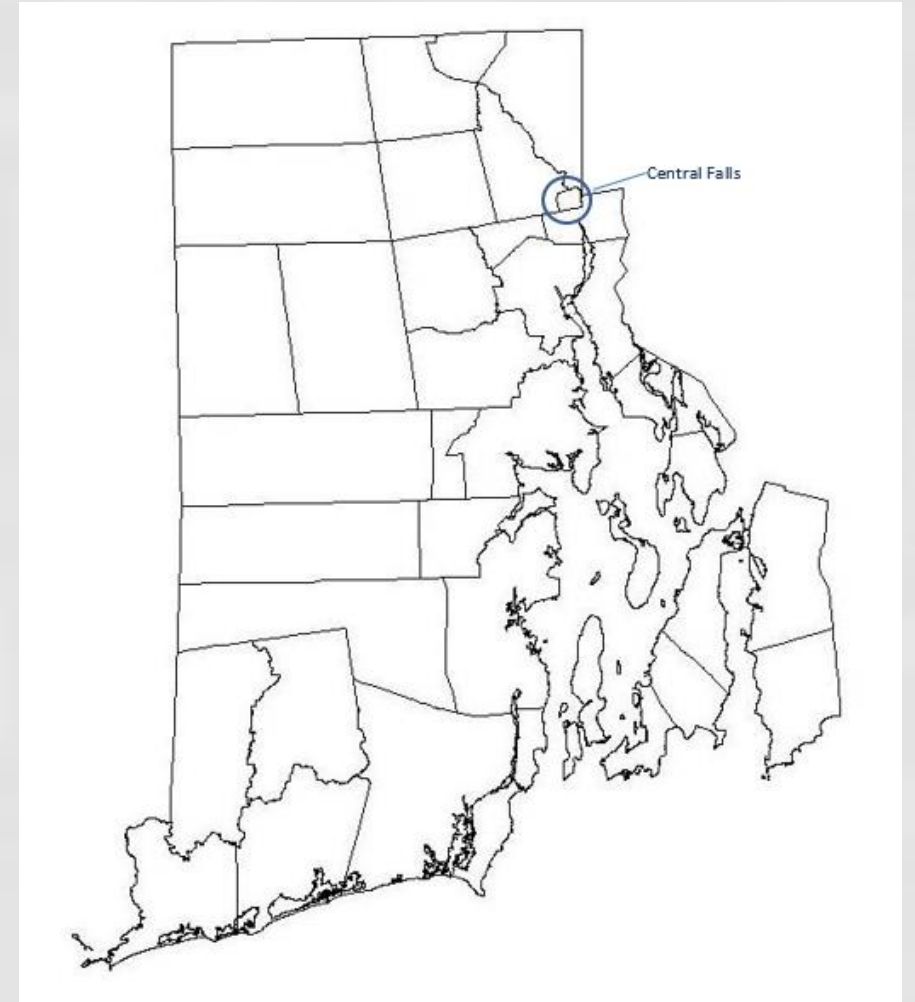
# Application in Rhode Island

The State has intervened, in varying capacities, 4 times:

	Central Falls	East Providence	Woonsocket	Central Coventry FD
<u>Step 1:</u> Fiscal Overseer		November 2011 ✓ Projected deficits ✓ Rating downgrade		
<u>Step 2:</u> Budget Commission		December 2011 ✓ Overseer/DMF report	May 2012 ✓ City request	
<u>Step 3:</u> Receiver	July 2010 ✓ Fiscal emergency			May 2014 ✓ Fiscal emergency
Bankruptcy	August 2011			December 2014
Bankruptcy End	October 2012 (Completed)			October 2015 (Dismissed)
FSA Resolution	April 2013	September 2013	March 2015	October 2015
DOR Continued Oversight	Admin & Finance Officer 2013-2018	Finance Advisor 2013-2018	Finance Advisor 2015- 2020	

# Application in Rhode Island: Central Falls

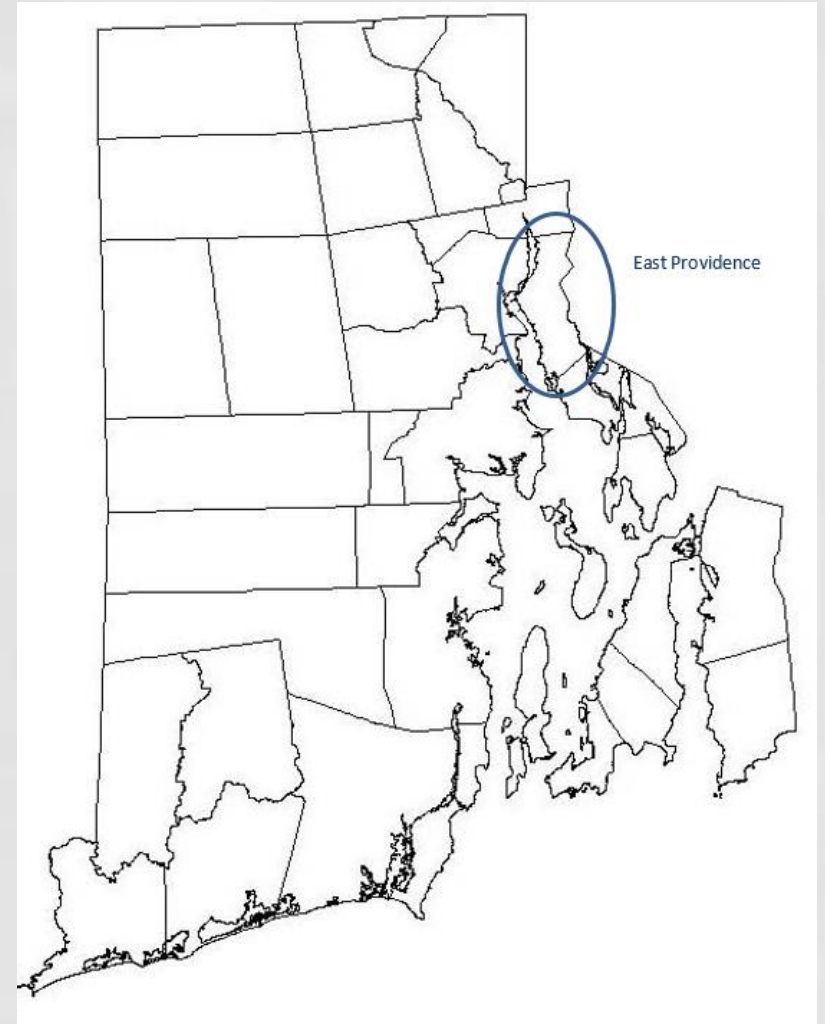
- Exited bankruptcy in October 2012
- Audited surpluses between \$1.0-\$1.9 million since exiting bankruptcy
- Bond ratings have improved and have “positive outlook”
- State oversight ends 2018





# Application in Rhode Island: East Providence

- Budget Commission ended September 2013
- \$14.3M fund balance, with \$10.3M designated as Budget Reserve Fund
- Bond ratings have improved and have “positive outlook”
- State oversight ends 2018



# FSA Restrictions

## Administrative Expenses

- Municipality responsible for all administrative expenses incurred during state oversight
- Costs for Finance Officer and Financial Advisor are shared 50/50 between municipality and State

## Collective Bargaining

- No CBA can be approved unless State appointee has participated in negotiations and certifies CBA has no detrimental impact on municipal services

# Other State Requirements

- RIGL 45-12-22.2: Requires municipality projecting a year-end deficit to submit a corrective action plan for approval by Division of Municipal Finance
- RIGL 45-12-22.3: Requires municipality ending the year with a deficit to submit a deficit reduction plan to eliminate deficit in less than 5 years, for approval of Auditor General
- RIGL 45-12-22.7: If plans are deemed insufficient, DMF or Auditor General may:
  - Petition Superior Court for mandatory injunctive relief
  - Implement a Budget Commission
  - Withhold State Aid

**Thank you**

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